

Message Text

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17 11

ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 COME-00 SCI-06 SCEM-02 INT-08

EA-11 AID-20 CIAE-00 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01

OMB-01 DODE-00 PM-07 H-03 L-03 NSC-10 PA-04 PRS-01

SS-20 USIA-15 ACDA-19 IO-14 DRC-01 /221 W

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R 302115Z NOV 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 9326

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 6238

PASS COMMERCE/OED

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: MCKEE BID ON PETROLEUM REFINERY

REF: A) QUITO 5990 B) STATE 230979

1. SUMMARY: SINCE THE DECISION WAS TAKEN ON NOVEMBER 18 TO AWARD THE REFINERY CONTRACT TO SUMITOMO/CHIYODA, WE HAVE LOOKED FOR A LIKELY MEANS BY WHICH WE MIGHT STILL SALVAGE THE CONTRACT FOR MCKEE. WE HAVE FOUND NONE. ANY CHANCE FOR U.S. BIDDERS WILL DEPEND ON:

A) FAILURE OF SUMITOMO/CHIYODA AND GOE TO AGREE ON DETAILED CONTRACT TERMS DURING NEGOTIATIONS. (THIS IS UNLIKELY.); OR

B) EMERGENCE OF CRITICAL PUBLIC OPINION REVOLVING AROUND EXORBITANT COST OF REFINERY, AND REPUDIATION OF LATEST ROUND OF BIDDING.

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WE WILL CONTINUE EFFORTS TO CONTRIBUTE TO A REVERSAL OF THE AWARD THROUGH DISCREET PERSONAL CONTACT WITH SELECTED OFFICIALS AND PRESS PLAY, IF POSSIBLE. HOWEVER, SINCE MCKEE LEFT US WITH LITTLE AMMUNITION FOR OUR GUNS, AND THE DIFFERENCE BETWEEN MCKEE'S LATE OFFER AND OFFER OF SUMITOMO/CHIYODA IS PURPORTED TO BE LESS THAN \$3 MILLION, ONLY TACTIC IS TO PLAY UPON THE EXCESSIVE COST OF THE REFINERY AND HOPE THE CONTEST WILL BE REOPENED. END SUMMARY.

2. UNFORTUNATELY, ATTEMPTS TO MAKE REPRESENTATIONS TO FINANCE MINISTER SALAS AND COMMERCE AND INDUSTRY MINISTER ROSALES PRIOR TO THE NOVEMBER 18 DECISION FAILED BECAUSE OF THEIR UNAVAILABILITY (PROBABLY DELIBERATE). SINCE THAT TIME, EMBOFFS HAVE APPROACHED NUMEROUS PERSONALITIES, INCLUDING THE ITALIAN CHARGE, LOCAL MCKEE REPRESENTATIVE MARCOS GANDARA, AND PETROLEUM ADVISOR FERNANDO SALAS. WE CONCLUDE THAT SELECTION OF SUMITOMO/CHIYODA IS CONSIDERED FINAL, WITH NO ACTIVE OPPOSITION BY ANY MINISTERS.

3. ANY CHANCE FOR U.S. BIDDERS WILL DEPEND ON:

A) FAILURE OF SUMITOMO/CHIYODA AND GOE TO AGREE ON DETAILED CONTRACT TERMS DURING NEGOTIATIONS. (THIS IS UNLIKELY); OR

B) EMERGENCE OF CRITICAL PUBLIC OPINION REVOLVING AROUND EXORBITANT COST OF REFINERY, AND REPUDIATION OF LATEST ROUND OF BIDDING.

4. IN REGARD TO FACTOR (B), QUESTIONS ABOUT AWARD HAVE ALREADY ENTERED PUBLIC DOMAIN. EL TIEMPO COLUMNIST AND FORMER FONMIN JULIO PRADO ON NOVEMBER 23 WROTE THAT INCREASED COST AND TWENTY MONTHS DELAY IN AWARD HAS RESULTED IN LOSS OF BILLIONS OF SUCRES TO ECUADOR. HE QUESTIONED SOUNDNESS OF LUMP-SUM BID PROCEDURE, ASKED GOE TO EXPLAIN DOUBLING OF COST AND JUSTIFY ACCUSATIONS AGAINST VELASCO GOVERNMENT FOR EARLIER SELECTION OF JAPAN GAS AT \$50 MILLION COST.

5. LONG PUBLIC LETTER BY VELASCO'S LAST MINISTER OF NATURAL
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RESOURCES, ALFONSO ARROYO, APPEARED IN NOVEMBER 27 QUITO AND GUAYAQUIL PRESS. ARROYO, WHO SPENT ALMOST ONE YEAR AS PRISONER OF THIS GOVERNMENT PARTLY AS RESULT OF HIS ROLE IN EARLIER SELECTION OF JAPAN GAS, CLAIMED THAT LATEST GOE AWARD VINDICATES HIS OWN REFINERY POLICY, AND HE CRITICIZED LATEST AWARD FOR COSTING TWICE AS MUCH. HE ESTIMATED TOTAL LOSS TO ECUADOR AT \$135SMILLION, RESULTING BOTH FROM COST INCREASES AND LOST SALES OPPORTUNITIES. FINALLY, ARROYO CRITICIZED

MINISTER GUSTAVO JARRIN'S PETROLEUM POLICY FOR DRIVING OUT FOREIGN EXPLORATORY COMPANIES AND PUMPING OUT CRUDE AT RATE WHICH WILL EXHAUST PROVEN RESERVES WITHIN TEN YEARS. A FOREIGN MINISTRY CONTACT DESCRIBES ARROYO'S LETTER AS A BOMBHELL, BUT GOE THUS FAR HAS MADE NO OFFICIAL REBUTTAL.

6. THERE IS SOME HOPE FOR MCKEE IN A CONTINUATION OF ADVERSE PUBLICITY. HOWEVER, ATTRIBUTION TO MCKEE OR THIS EMBASSY OF CRITICISM OF GOE WOULD HAVE DISASTROUS CONSEQUENCES. GANDARA IS CONVINCED THAT MCKEE CAN ONLY STAND ASIDE AND AWAIT POLEMICS WHICH MAY DEVELOP.

7. MCKEE BEARS MUCH OF THE RESPONSIBILITY FOR ITS FAILURE TO OBTAIN AWARD. ITS REFUSAL TO COMPLY WITH GOE BID TERMS IS INCOMPREHENSIBLE TO CEPE, AND IT IS NOT CERTAIN THAT MCKEE WAS REALLY TRYING. COMPANY, BY ITS STUBBORNNESS AND ITS LETTERS CRITICIZING CEPE OFFICIALS, MADE SEVERAL ENEMIES. GANDARA HIMSELF BELIEVES THAT MCKEE'S ALIBI FOR DELAY IN SUBMITTING GMP DOES NOT HOLD WATER. ALSO, MCKEE'S LOCAL INTELLIGENCE NETWORK WAS A DISASTER. IN THE LAST ANALYSIS, SOME SOURCES OF ANTICIPATED SUPPORT OR NEUTRALITY WITHIN CEPE BOARD OF DIRECTORS CARRIED THE BANNER FOR SUMITOMO AT THE FINAL MEETING. THIS IS A GOOD LESSON FOR FUTURE U.S. BIDDERS IN ECUADOR.
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